HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK

## Gatineau[1]

CANADA MORTGAGE AND HOUSING CORPORATION

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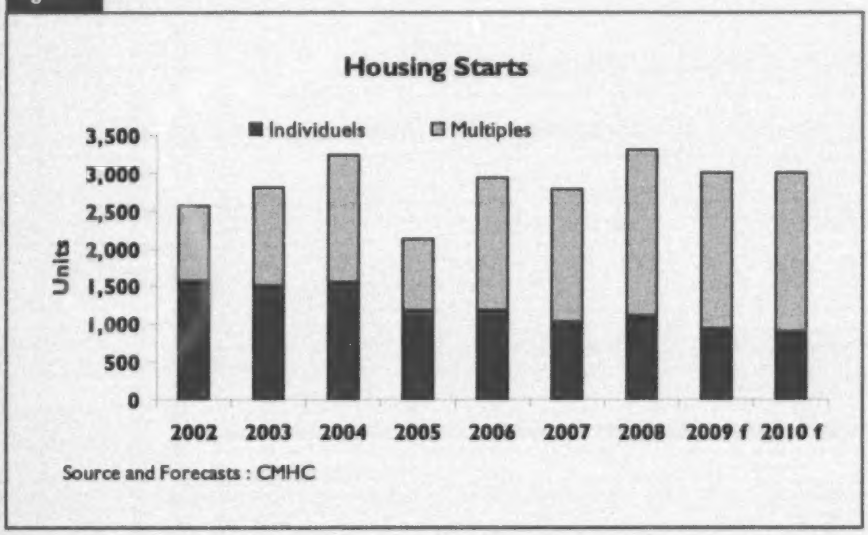
## Construction to remain stable in 2010[2]

While construction is up by 2 per cent for the first nine months of the year in the Quebec part of the Ottawa-Gatineau census metropolitan area (CMA), 2009 will end with fewer housing starts than in 2008. It is expected that a total of 3,000 units will have been added to the market, down 304 units (9 per cent) from 2008. This turnaround expected at the end of the year will result from two major factors: the accumulation of unsold new homes and the relatively strong activity observed in the last quarter of 2008. In 2010, starts are forecast to remain at the same level as in 2009 (3,000 units). The low mortgage rates, the positive net migration and the improvement

Figure 1

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[1] Quebec part of Ottawa-Gatineau CMA

[2] The forecasts included in this document are based on information available as of October 1, 2009.

in economic conditions will all help residential construction volumes to remain high in the Gatineau area in 2010.

## Job market to stay strong in 2010

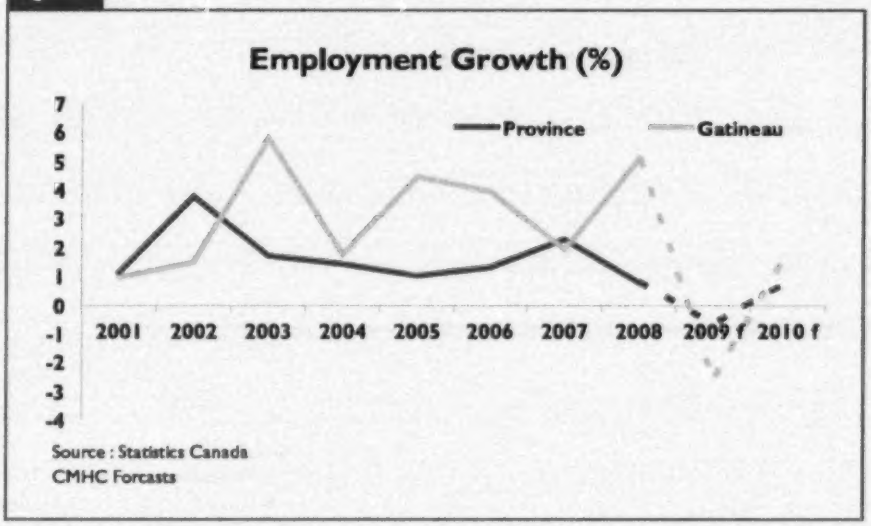
As was the case across Quebec, the Gatineau area was not spared by the economic jolts of the past year. The unemployment rate, which had fallen to levels below 5 per cent in 2008, has now returned to higher levels (5.8 per cent in September) but remains below the rate for Quebec overall (8.8 per cent). The many layoffs in the first months of the year accounted for this rise in the unemployment rate. However, the small labour market contraction will have lasted only a few months, as employment has been increasing in the area since last May. Of course, a loss of some 2,200 jobs still needs to be made up in order for employment to return to the level recorded a year earlier (in September 2008), but a detailed analysis of the job market shows that the decline was due only to part-time positions. In fact, there are now more full-time jobs than there were a year ago. This is a tangible benefit for the real estate market, as full-time jobs are the main driver of potential housing demand. In addition, according to the results of Statistics Canada Labour Force Survey, the number of workers has increased in the past year in construction and in professional and technical services—two generally well-paying sectors.

This turnaround in economic conditions, marked by low mortgage rates, among other factors, will benefit the housing market.

## Interest rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Figure 2




Source : Statistics Canada
CMHC Forcasts

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

## Net migration still positive in the area

For several years now, the Gatineau area has enjoyed relatively stable positive net migration. On average, nearly 12,000 people have settled in the Gatineau area in the last five years. While a large number of people also left area for other regions or other countries, net migration remained positive, at more than 2,600 people, on average, over the last five years. The recession will have probably reduced migration movements but, as the outlook for 2009 and 2010 remains enviable, the Gatineau area should still record migration gains in the short term. It is therefore expected that, on average, net migration levels will reach 2,800 people per year, between 2008 and 2010.

As well, net migration along with natural growth will result in the addition of a total of over 4,000 people yearly to the Gatineau area population, until 2010. Favourable labour market conditions and the new government policy to progressively increase the international immigration target for Quebec to 55,000 people by 2010 will help keep net migration positive. Numerous advantages granted to parents of preschool-age children, such as parental leaves, child benefits and the new subsidized child care spaces that will be created over the next three years, will quicken the pace of family formation—families with their own housing needs. Lastly,

the gap of close to $100,000 between the average prices of existing homes in Ottawa and Gatineau will likely continue to encourage some buyers from Ontario to settle on the Quebec side, which will favour the Gatineau housing market.

The anticipated migration growth will result in the net formation of over 2,500 households per year, on average, in 2009 and 2010. The aging of the population, separations and the expected increase in enrolments in post-secondary institutions will contribute to the formation of one-person households, while the increase in births will continue to push up the number of people per household.

## Multiple-unit housing in demand

In our fall 2008 Housing Market Outlook report, we mentioned that the repercussions of the price hikes of recent years and the economic disruptions in 2009 would again reduce the market share of single-detached houses in favour of smaller, more affordable housing types, such as semi-detached homes, row houses and apartments. In fact, during the first nine months of 2009, more than 54 per cent of the dwellings started were semi-detached houses, row homes and condominium apartments, compared to 40 per cent during the same period a year earlier. Interest rates reached historically low levels in 2009 and credit became more accessible, as did homeownership, which attracted a greater number of first-time buyers seeking more affordable homes.

We believe that this trend will continue over the last quarter of 2009 and next year. There will still be many single-detached houses getting under way, but the steady growth in prices and the progressive rise in mortgage rates in 2010 will erode demand for such homes. As well, given that City wants to have higher densities in new residential developments, more and more multiple-unit housing will be started, in comparison with single-detached homes.

After a strong increase in semi-detached and row housing starts in 2009, the construction of these types of homes is therefore expected to remain stable next year. Apartment starts, on the other hand, should increase slightly. It is anticipated that the number of new condominiums will remain considerable in 2010 but that rental apartment construction will post little growth. Contrary to 2008, activity calmed down significantly in 2009 (during the first three quarters), as very few major rental apartment projects got under way. However, the low rental housing vacancy rate and net migration gains could change things and prompt more developers to turn to this market segment in 2010. In sum, multiple-family housing starts should increase by 50 units to 2,100 next year, but an equivalent decrease (50 units) is expected in the single-detached home segment, for a total of 900 new units of this type.

The steady demand and few available lots will put upward pressure on new housing prices. In the case of affordable homes, such as semi-detached houses, the growth in prices should exceed the rate of inflation in 2010. The price of single-detached houses will also rise next year, but at a pace closer to the Consumer Price Index (CPI) rate.

Since 2007, Aylmer has been the sector with the most starts, and the same will hold true in 2010. The concentration of buildable lots—in the Plateau district, among others—and the interest of buyers in this sector, which is now better served since the construction of Des Allumettières Boulevard, will continue to stimulate activity in the CMA. The Gatineau sector will rank second, followed by Hull, which no longer has many available lots. However, developers and buyers could be attracted by the île de Hull municipal revitalization program, which provides subsidies for the construction or reconstruction of buildings with three or more storeys for residential use. Through this program, the City of Gatineau would like to increase the number of residents by 10,000 people and the number of dwellings by 4,000 units on île de Hull by 2025.

## Resale market in 2010

After slowing down in the last quarter of 2008 and the first three months of 2009 compared to the same period a year earlier, the pace of sales registered through the Multiple Listing Service (MLS)® rebounded during the summer and should continue to pick up in the fourth quarter of this year and in 2010. While buyers may have been hesitant at the beginning of the year, or waiting for bargains that never came, the current conditions should rather encourage them to no longer wait. In fact, in addition to the improving economy and low borrowing costs, other factors are prompting many buyers not to put off their purchases: home prices are still on the rise and the top housing types (affordable semi-detached and row homes) have fewer and fewer available units on the market. Despite a slow start this year, it is expected that there will be as many properties sold in Gatineau in 2009 as in 2008 (4,400 units). In 2010, the sales volume will again remain stable, at 4,400 units, thanks to the good economic outlook in the area.

While the resale market is expected to remain stable from now until the end of 2010, upscale properties will be more difficult to sell. In fact, the steady growth in prices has resulted in an increase in the number of single-family homes priced at $250,000 or more. The market is now balanced for properties selling between $250,000 and $299,999. In the case of homes selling for $300,000 or more, the market clearly favours buyers.

Since buyers are seeking more affordable properties, demand for semi-detached and row houses will stay high. In addition, the scarce supply and relatively short listing periods for such homes will continue to favour sellers in 2010, which will cause the price of these properties to rise faster than those of other housing types.

Overall, the average price on the existing home market will increase by 4 per cent in 2009 and then rise more moderately, by 2.5 per cent, in 2010. The market, which continued to be favourable to sellers in 2009 (except in the case of condominiums), will move closer to balanced conditions in 2010, as a result of a greater supply on the market and the fact that there are fewer and fewer affordable homes for sale.

## Vacancy rate to rise slightly in 2010

The rental housing vacancy rate should increase slightly this year and next year, reaching 2.1 per cent this fall and 2.3 per cent in 2010. The strong demand observed this year in the starter home segment (semi-detached and row houses and condominium apartments) should cause more rental dwellings to be vacated. However, the rental market will stay tight this year, on account of the low construction volumes recorded in this segment for the past few years, the small number of available units according to the spring 2009 survey and the fact that there continue to be more people moving into than out of the area. In 2010, the market could ease somewhat if construction picks up in this segment.

In the case of retirement homes, the vacancy rate should fall in 2010, after having risen to a high of 17 per cent in February 2009. In fact, the Gatineau area has seen several new residences get under way in recent years, which caused the supply of such units to rise at a much faster pace than the demand. This even led to construction stopping on a number of units in the Aylmer sector. As well, fewer than 30 units have been started since the beginning of 2009, and we do not forecast any more until the vacancy rate returns to more sustainable levels.

| Forecast Summary Gatineau CMA Fall 2009 | 2006 | 2007 | 2008 | 2009f | % chg | 2010f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 4,788 | 5,205 | 4,390 | 4,400 | 0.2 | 4,400 | 0.0 |
| MLS® Active Listings[1] | 2,609 | 2,558 | 2,495 | 2,500 | 0.2 | 2,600 | 4.0 |
| MLS® Average Price ($) | 163,539 | 178,372 | 187,039 | 194,550 | 4.0 | 199,400 | 2.5 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,171 | 1,037 | 1,120 | 950 | -15.2 | 900 | -5.3 |
| Multiples | 1,762 | 1,751 | 2,184 | 2,050 | -6.1 | 2,100 | 2.4 |
| Starts - Total | 2,933 | 2,788 | 3,304 | 3,000 | -9.2 | 3,000 | 0.0 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 212,375 | 231,136 | 243,887 | 258,000 | 5.8 | 266,000 | 3.1 |
| Semi-Detached | 141,056 | 139,774 | 167,580 | 185,000 | 10.4 | 193,000 | 4.3 |
| New Housing Price Index (% chg.) (Ottawa-Gatineau) | 3.1 | 1.8 | 3.8 | 1.2 | - | 1.5 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 4.2 | 2.9 | 1.9 | 2.1 | - | 2.4 | - |
| Two-bedroom Average Rent (October) ($) | 667 | 662 | 677 | 690 | - | 705 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.28 | 6.90 | 6.70 | 4.03 | - | 3.83 | - |
| Mortgage Rate (5 year) (%) | 6.66 | 7.07 | 7.06 | 5.55 | - | 5.75 | - |
| Annual Employment Level | 160,200 | 163,300 | 171,700 | 167,000 | n.a | 170,000 | n.a |
| Employment Growth (%) | 3.9 | 1.9 | 5.1 | -2.7 | n.a | 1.8 | n.a |
| Unemployment rate (%) | 5.6 | 5.5 | 4.8 | 5.8 | - | 5.8 | - |
| Net Migration | 2,052 | 1,648 | 2,800 | 2,700 | -3.6 | 3,000 | 11.1 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA). **Source: QFREB by Centris® as of January 2009 (Active Listings)**

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

[1] Source: QFREB by Centris® as of January 2009

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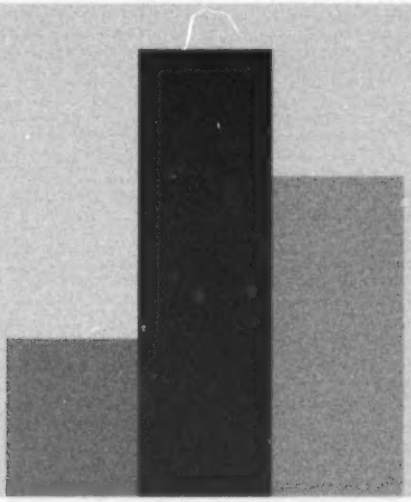

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